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ADC
ANNUAL REPORT

1985-86

Alberta

Agricultural Development Corporation

Heritage Fund

CONTENTS

Section 1

Presentation to the Associate Minister of Agriculture	2
Message from the Ministers	4
Chairman's Report	6
Corporate Operations Overview	8
ADC Lending Activity: A Ten Year Comparison	10
1985-86 Comparative Data	11
Regional Map	13
Corporation Office Locations	13

Section 2

Auditor's Report	16
Financial Statements	17
Board of Directors	24
Corporate Officers and Senior Staff	24

PRESENTATION TO THE ASSOCIATE MINISTER OF AGRICULTURE

The Honourable Shirley Cripps
Associate Minister of Agriculture

Madam:

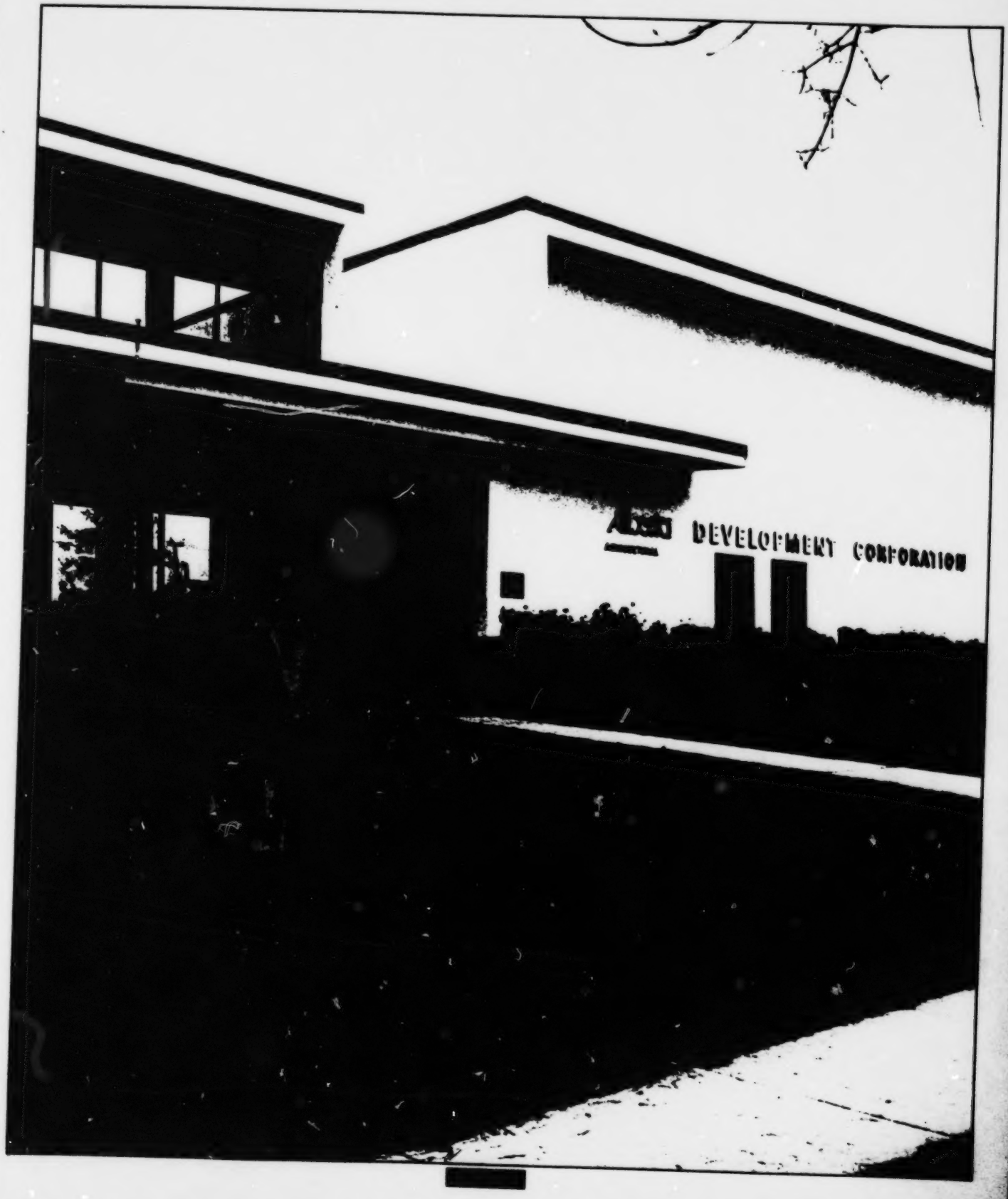
On behalf of the Board of Directors, I am pleased to submit the thirteenth Annual Report of the Alberta Agricultural Development Corporation, covering the fiscal year ending March 31, 1986.

As required by section 9 of the Agricultural Development Act, the report contains a summary of the business affairs of the Corporation, statements of revenue, expense and retained earnings, a review of the corporate financial position, and a balance sheet.

Yours truly,

J. Harold Hanna
Chairman and Chief Executive Officer

August 14, 1986


DEVELOPMENT CORPORATION

MESSAGE FROM THE MINISTERS

Hon. Peter Elzinga
Minister of Agriculture

Hon. Shirley Cripps
Associate Minister
of Agriculture

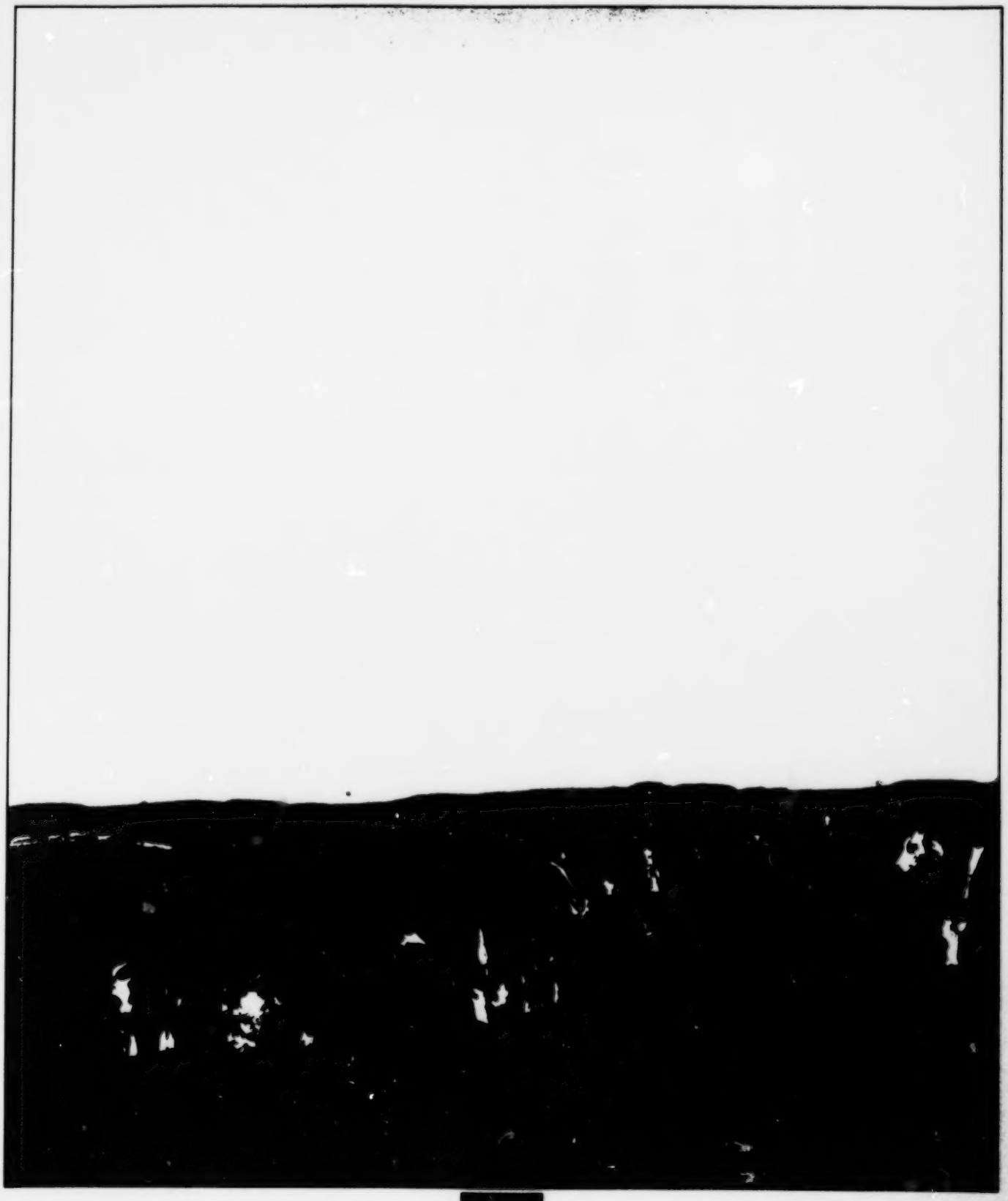
ADC was established as a Crown Corporation by the Government of Alberta in 1972. Since that time, the Corporation has functioned as a supplementary lender to farmers and agribusiness firms within the province. A high priority has been placed on assisting beginning and developing farmers. This has been done by providing farm credit with reasonable interest rates and terms. Today, the Alberta Agricultural Development Corporation operates the most comprehensive portfolio of farm loan and guarantee programs available in Canada.

The Corporation provides extensive financial counselling through Loans Officers. In addition, special counselling services are provided to farmers in financial difficulty under the Enterprise Counselling Program.

In keeping with the Government of Alberta's recognition of the need for long term fixed rate financing, the interest rates on all ADC direct farm loans was fixed at 9% commencing April 1, 1986.

ADC is a major supplier of agricultural credit in Alberta. To ensure that the credit needs of agriculture are being met, a review of the role and mandate of the Alberta Agricultural Development Corporation will be conducted in the coming year. Through the review we will ensure the provision of the credit services that are required to meet the changing needs of agriculture. We will also ensure their continued delivery in a responsible and efficient manner.

The capital funding for ADC's loan programs is made available through the sale of debentures to the Alberta Heritage Savings Trust Fund.



CHAIRMAN'S REPORT

The significance of agriculture, as a major industry in Alberta, can be illustrated by the fact that the province has more than 30 million improved acres representing approximately 30% of Canada's farm land. Moreover, Alberta has the potential for bringing significant additional land under cultivation. As a result of improved productivity, annual production of Alberta crops has grown from 11 million tonnes in 1961 to more than 24 million tonnes in 1983. This accounted for approximately 24% of the Canadian total. In addition, Alberta producers maintain nearly one half of Western Canada's cattle and calves. The use of modern technology in these enterprises, and in the production of milk, pork, poultry, sheep, honey, vegetable and greenhouse production, makes Alberta agriculture a highly efficient food production system.

Because our capacity to produce far exceeds our ability to consume, Alberta farmers compete on world grain and livestock markets with primary agricultural produce estimated at $2 billion per year. As a result, agriculture in Alberta is vulnerable to changes in worldwide economic conditions. At this time there is concern that world wide surplus stock and excess production capacity, coupled with the current aggressive price and marketing policies of the USA, may result in continued weak export prices.

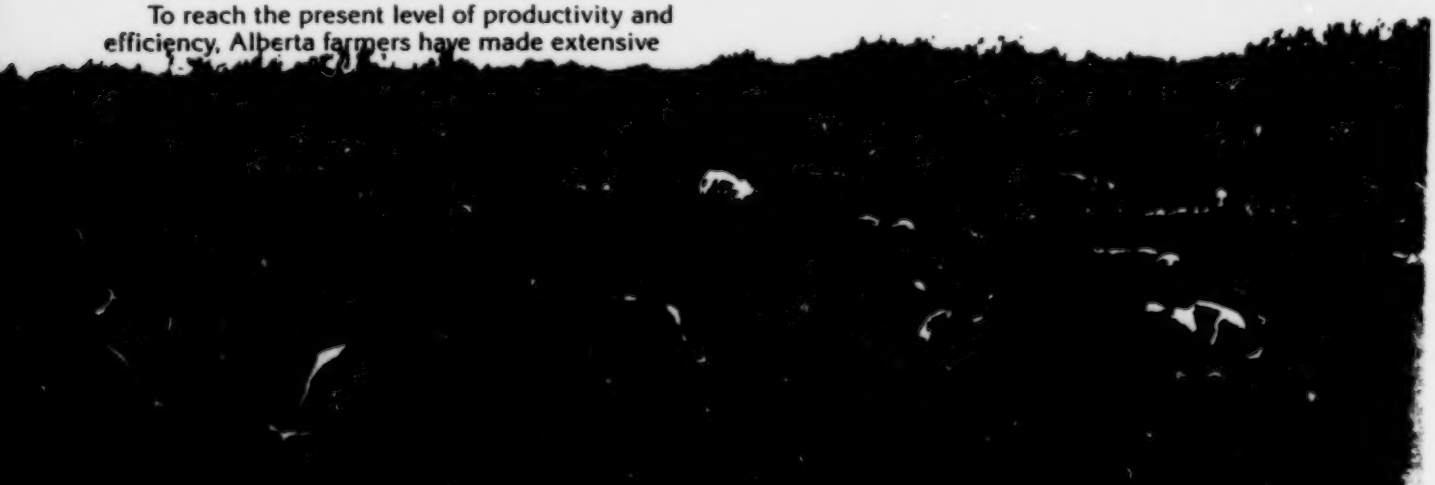
While the agricultural sector of Alberta has long term strength and great potential, its fortunes have been adversely affected by short run difficulties, as a result of drought and snowed under crops, that have affected grain farmers and livestock producers in 1984 and 1985. Fortunately, a number of government assistance programs have offset their impact to a considerable extent.

To reach the present level of productivity and efficiency, Alberta farmers have made extensive use of credit. In 1985 it is estimated that farm debt in Alberta reached $5.9 billion or 25% of Canada's total outstanding farm debt.

In its role as a lender to beginning and developing farmers and agribusiness, the Alberta Agricultural Development Corporation (ADC) is particularly susceptible to the vagaries in the agricultural economy. This role also puts ADC in direct contact with many farmers who are experiencing escalating debt repayment problems. Over the past year, ADC has continued to respond to the needs of Alberta farmers, providing credit assistance and strengthening farm financial management skills. Emphasis is placed on making farmers aware of the benefits of sound financial management and accounting practice. Farmers are encouraged to adopt financial strategies to reduce risk. Farm financial problems of the recent past have made clear the importance of sound financial management and record keeping systems to farm business performance. Management skills and supporting accounting systems are key determinants in the success and even survival of most farm businesses.

For the year ended March 31, 1986, ADC authorized loans and guarantees totalling $227.6 million. The largest single portion of this total, $89.1 million, was dispersed under 802 Beginning Farmer Program loans.

As a result of program improvements and changing credit requirements, the volume of guaranteed loans continued to climb. These guaranteed loans are obtained by farmers and agribusinesses from lenders other than ADC, with ADC providing a guarantee of repayment. In this



CHAIRMAN'S REPORT

last year of operations, guaranteed funding exceeded direct lending and totalled $126.2 million. The significance of these guarantee programs is shown in the number of loans provided, 6002 in all.

ADC's lending activities over this past year, combined with our work since 1972, brings our total portfolio to $1.210 billion on 25,410 active accounts. Direct lending accounts form $1.021 billion of this total, with the balance being Specific Guarantees, Alberta Farm Development Loan guarantees and Farm Development Guarantees.

ADC's Enterprise Counselling program, established in 1985, provided expanded services to farmers seeking assistance in solving their financial problems. Since the inception of the program, our farm counsellors have undertaken 362 on-farm counselling assignments. This program has proven to be very successful in establishing workout plans between farmers and creditors.

Income in the 80's has fallen short of the expectations that were capitalized into land prices during the preceding decade. As a result a number of farmers find themselves in a vulnerable position. In spite of the inability of farm cash flow to keep pace with debt servicing requirements of some farmers, ADC's accounts in arrears remain manageable. As of March 31, 1986, 9.9% of ADC's direct loans were over one year in arrears. The value of these arrears totalled $31.8 million, and represents 3.2% of the total outstanding portfolio.

As the number of Alberta farmers in financial difficulty has increased, recovery action by ADC has become more frequent and involved 230 borrowers with direct and specific guaranteed loans. These actions were not taken until all other alternatives were explored. As a developmental lender, ADC's primary objective is to keep farmers in business.

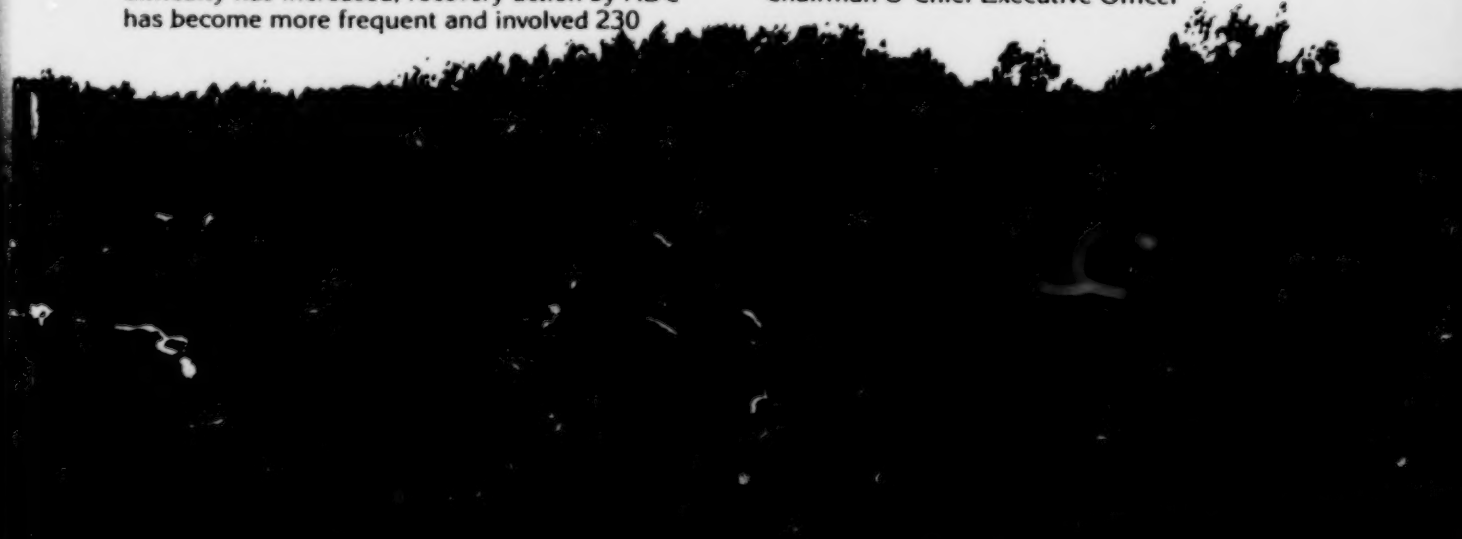
ADC incurred a net loss of $51,777,000 on its operations for the last fiscal year. This loss, coupled with the deficit from the previous year, resulted in a total deficit of $78,190,000 at March 31, 1986. The necessary increase in the provision for doubtful accounts and for losses on realization of assets resulted in this increased deficit.

During the year Mr. Jim Elliott and Mrs. Barbara Tiegs left the Board after many years of dedicated service. They made an outstanding contribution in guiding ADC to its present status as a major agricultural lender in Alberta.

Two new appointments to ADC's Board of Directors were announced during 1985, Mr. Claude Bishop and Mr. Brian Heidecker. In addition, Mr. Doug Porter joined the Corporation as General Manager.

The coming year will present many challenges to ADC, its Directors and staff. A complete review of the Corporation's role and mandate will be undertaken, and these efforts will ensure that ADC continues to best meet the financial needs of Alberta's farmers and agribusinesses.

J. Harold Hanna
Chairman & Chief Executive Officer



Farm Lending

During 1985-86 total direct and guaranteed farm lending was down about 10% from the previous year, reflecting the continuing unfavourable economic factors facing primary producers.

Direct farm loans amounting to $91.4 million were made to 831 farmers. Part 'A' and Part 'B' loans approved for 29 farmers amounted to $2.3 million, while 802 beginning farmer loans accounted for the balance of $89.1 million. The majority of these new entrants to farming took advantage of the staged option feature which enables beginning farmers to draw down total borrowings in three stages over six years, as their farming operations develop.

Guaranteed farm lending for the year totalled $93.2 million, involving nearly 6000 loans made by other lenders and guaranteed by ADC. The Corporation's Alberta Farm Development Loan program (A.F.D.L.) accounted for 5881 loans and $87.1 million of this total. Specific Guaranteed loans were approved for 37 farmers and amounted to $2.2 million. During the year there were 81 loans authorized under the new Farm Development Guarantee program for operating funds, amounting to $3.8 million.

Incentives

During 1985-86 more than $40 million of incentives were earned by farmers under ADC's various lending programs. Of this total, $38 million in interest incentives was paid or credited to 4933 beginning farmers. A further 301 farmers earned $1.4 million in interest incentives as a result of extending such incentives beyond the initial five year period of their loans. Production incentives of more than $1 million were earned by some 1800 farmers in specific sectors of the industry. These production incentives included interest rebates paid on loans made for projects undertaken by farmers to improve range and soil conditions, sheep facilities and vegetable storage operations.

Agribusiness Lending

Direct and guaranteed lending to agribusiness enterprises totalled $43.1 million during the year. Of this total, $10 million in direct funding was advanced, while $33.1 million in specific guarantees and letters of credit was authorized. Nearly all of this new credit was extended to the oilseed crushing industry.

Enterprise Counselling

During 1985-86 the Enterprise Counselling Service, which commenced early in 1985, provided valuable assistance to primary producers experiencing financial difficulty. This service is provided by ADC at no cost to the farmer, in order to help him develop a workout plan to restore viability to the farming enterprise.

A dedicated group of some 60 experienced and successful farmers and business people throughout the province, agreed to act as counsellors under this program. Since the inception of the service, several hundred Alberta farmers in difficulty have taken advantage of the program.

Lending Program Changes

The existing Farm Development Guarantee program, designed to assist farmers in obtaining operating funds, was modified during the year. These changes were aimed at expediting the processing of applications under the program, and encouraging conventional lenders to participate more fully and effectively.

Further changes were introduced in the A.F.D.L. program to broaden the eligible purposes for which these loans may be obtained.

During the year, changes were made concerning interest rate reductions for existing agribusiness loans. These rate reductions apply to the first $500,000 of the outstanding loan amount.

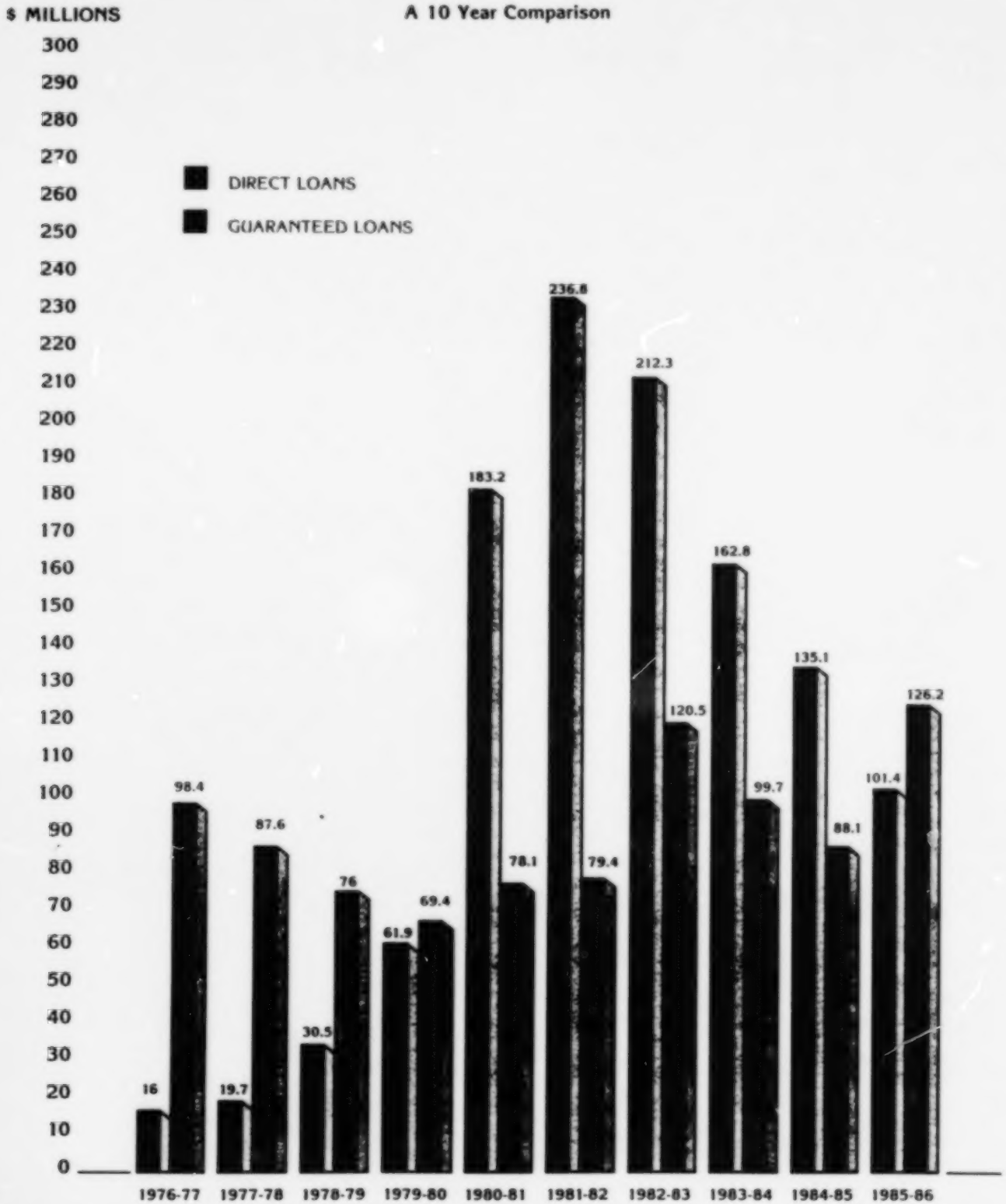
At the year end, major changes were announced for the Corporation's direct farm lending programs. These changes were made to enable ADC's programs to conform to the government's intention to make credit available to farmers at a fixed rate of 9% for 20 years. ADC's preferred farm lending interest rate was reduced from 12% to 9% for the life of the loans. This benefit applies to existing, as well as new borrowers. The previous direct farm loan programs have been combined into a new Beginning and Developing Farmer Program. Beginning farmers now receive an interest incentive of 3% for the first five years of their loan, thus maintaining a net cost of 6% for this initial loan period. New beginning farmers will be required to provide 20% equity to be eligible for a loan, and this change will strengthen their chances of operating a successful farming enterprise.

Developing farmers with assets and net worth not exceeding $500,000 and $250,000, can now benefit from a fixed 9% rate of interest for the life of the loan. This stable rate of interest will facilitate planning and improve the chances of success.

Staff Activity

Notwithstanding the reduction in direct lending volume during the year, ADC staff at the Camrose head office and at the various field offices are to be commended for maintaining a high level of program service to existing clients and new applicants. It is significant to note that the field staff delivering the Corporation's various program services were involved in nearly 58,000 client contacts and more than 6100 farm visits during the year. The shifting emphasis which occurred in 1985-86 in respect of counselling, collection and property-related activities is expected to continue in the coming year.

ADC LENDING ACTIVITY



1985-86 COMPARATIVE DATA

By Major Client Group and Type of Assistance
for the years ending March 31, 1986 & 1985

	1985-86		1984-85		Accumulated Authorizations June 1972 March 1986		Active and Outstanding March 31, 1986	
	No.	$ Mil.	No.	$ Mil.	No.	$ Mil.	No.	$ Mil.
Farm								
Direct Loans								
Beginning Farmer	**802**	**$ 89.1**	896	$ 109.1	7,009	$ 907.6	**6,018**	**$ 769.5**
Other	**29**	**2.3**	77	7.5	5,284	278.6	**3,589**	**199.7**
	831	**91.4**	973	116.6	12,293	1,186.2	***9,607**	***969.2**
Specific Guaranteed Loans	**37**	**2.2**	75	6.4	1,872	79.3	**149**	**11.9**
Alberta Farm Development Loans	**5,881**	**87.1**	5,563	80.7	99,848	989.2	**15,525**	**161.8**
Farm Development Guaranteed Loans	**81**	**3.8**	4	0.2	85	4.0	**31**	**1.2**
	6,830	**$ 184.5**	5,615	$ 203.9	114,098	$2,258.7	**25,312**	**$1,144.1**
Agribusiness								
Direct Loans	**1**	**10.0**	1	18.5	137	72.9	**72**	**51.6**
Specific Guaranteed Loans	**2**	**21.1**	6	8	416	169.1	**25**	**8.1**
Letter of Credit	**1**	**12.0**	–	–	1	12.0	**1**	**5.9**
	4	**$ 43.1**	7	$ 19.3	554	$ 254.2	**98**	**$ 65.6**
Totals	**6,834**	**$ 227.6**	6,622	$ 223.2	114,652	$2,512.9	**25,410**	**$1,209.7**

*These figures include 406 Farm Purchase Board Loans, with $1.6 million outstanding, approved prior to June 1972

DIRECT FARM LOAN AUTHORIZATIONS

DISTRIBUTION ANALYSIS

for the years ending March 31, 1986
& 1985

	Beginning Farmer Program				Other Direct Loans				Totals			
	1985-86		1984-85		1985-86		1984-85		1985-86		1984-85	
	No.	$ Mil.	No.	$ Mil.	No.	$ Mil.	No.	$ Mil.	No.	$ Mil.	No.	$ Mil.
BY REGION												
• 1 South	**150**	**$ 19.0**	162	$ 21.4	**1**	**$ 0.1**	16	$ 1.9	**151**	**$ 19.1**	178	$ 25.3
• 2 South Central	**124**	**13.7**	142	17.1	**1**	**0.1**	8	0.8	**125**	**13.8**	150	17.9
• 3 North Central	**136**	**15.5**	175	20.6	**10**	**0.8**	11	1.3	**146**	**16.3**	186	21.9
• 4 North East	**145**	**13.8**	168	18.8	**4**	**0.4**	16	1.4	**149**	**14.2**	184	20.2
• 5 North West	**118**	**13.7**	89	11.6	**7**	**0.5**	13	0.9	**125**	**14.2**	102	12.5
• 6 Peace River	**129**	**13.4**	160	17.6	**6**	**0.4**	13	1.2	**135**	**13.8**	173	18.8
	802	**$ 89.1**	896	$109.1	**29**	**$ 2.3**	77	$ 7.5	**831**	**$ 91.4**	973	$116.6
BY PURPOSE												
Land	**674**	**$ 81.5**	715	95.2	**11**	**$ 1.0**	32	$ 3.7	**685**	**$ 82.5**	747	$ 98.9
Equipment & Livestock	**74**	**3.1**	84	5.4	**0**	**0.0**	1	0.1	**74**	**3.1**	85	5.5
Buildings	**16**	**1.4**	19	1.5	**0**	**0.0**	8	0.6	**16**	**1.4**	27	2.1
Financial Restructuring	**31**	**2.7**	44	4.1	**15**	**1.3**	29	2.8	**46**	**4.0**	73	6.9
Housing	**4**	**0.2**	24	1.7	**2**	**0.0**	4	0.2	**6**	**0.2**	28	1.9
Other	**3**	**0.2**	10	1.2	**1**	**0.0**	3	0.1	**4**	**0.2**	11	1.1
	802	**$ 89.1**	896	$109.1	**29**	**$ 2.3**	77	$ 7.5	**831**	**$ 91.4**	973	$116.6

ALBERTA FARM DEVELOPMENT LOAN AUTHORIZATIONS

Distribution Analysis
for the years ended March 31, 1986 & 1985

	1985-86 No.	1985-86 $ Mil.	1984-85 No.	1984-85 $ Mil.
BY REGION				
#1 South	842	$17.9	780	$16.3
#2 South Central	380	6.7	394	7.4
#3 North Central	922	14.5	862	13.7
#4 North East	1,258	15.3	1,170	13.8
#5 North West	1,448	18.5	1,315	16.2
#6 Peace River	1,031	14.2	1,042	13.3
	5,881	$87.1	5,563	$80.7
BY PURPOSE				
Land	91	$ 3.2	106	$ 4.0
Equipment & Vehicles	2,774	36.6	2,448	31.0
Buildings	185	2.2	180	2.2
Livestock	923	12.8	859	11.3
Operating Capital	1,159	22.6	1,217	23.4
Dairy Facilities/Equip	81	1.8	61	1.3
Clearing & Breaking	415	2.9	471	3.0
Housing	81	1.6	90	1.8
Other	45	0.4	42	0.3
Trade Accounts	97	2.9	81	2.3
Major Repairs	30	0.1	8	0.1
	5,881	$87.1	5,563	$80.7

SPECIFIC GUARANTEED FARM LOAN AUTHORIZATIONS

Distribution Analysis
for the years ended March 31, 1986 & 1985

	1985-86 No.	1985-86 $ Mil.	1984-85 No.	1984-85 $ Mil.
BY REGION				
#1 South	7	$ 0.9	11	$ 1.1
#2 South Central	3	0.2	3	0.6
#3 North Central	7	0.3	11	1.0
#4 North East	5	0.4	10	0.8
#5 North West	7	0.2	26	2.2
#6 Peace River	8	0.2	14	0.7
	37	$ 2.2	75	$ 6.4
BY PURPOSE				
Land	2	$ 0.0	7	$ 0.8
Equipment/Livestock	6	0.4	5	0.2
Financial Restructuring	15	1.3	37	4.7
Buildings	2	0.1	2	0.1
Other	12	0.4	24	0.6
	37	$ 2.2	75	$ 6.4

PROGRAM INCENTIVES EARNED

Distribution Analysis (including accruals)
for the years ended March 31, 1986 & 1985

	1985-86 No.	1985-86 $ 000	1984-85 No.	1984-85 $ 000
BY REGION				
#1 South	1,058	$ 9,106.3	1,281	$ 9,716.0
#2 South Central	801	5,386.8	790	4,238.5
#3 North Central	1,518	9,727.9	1,715	8,058.3
#4 North East	1,279	6,215.9	1,323	4,319.8
#5 North West	1,206	4,755.7	1,358	3,768.0
#6 Peace River	1,214	5,300.9	1,200	7,989.4
	7,076	$40,493.5	7,667	$38,090.0
BY PROGRAM				
Beginning Farmer	4,933	$38,026.8	5,966	$37,112.4
Extended Incentives	301	1,446.9	12	18.4
Farm Booster	14	10.5	42	32.2
Native Range Improvement	415	127.6	547	157.0
Range & Soil Improvement	1,245	594.2	873	429.3
Dairy Development	23	32.8	98	134.1
Sheep Incentive	99	58.7	92	65.2
Vegetable Storage	45	190.7	34	128.9
Grants To Estates of Deceased Borrowers	1	5.3	3	12.5
	7,076	$40,493.5	7,667	$38,090.0

AGRIBUSINESS LOAN AUTHORIZATIONS

Distribution Analysis
for the years ended March 31, 1986 & 1985

	1985-86 Direct No.	1985-86 Direct $ Mil.	1985-86 Guaranteed No.	1985-86 Guaranteed $ Mil.	1984-85 Direct No.	1984-85 Direct $ Mil.	1984-85 Guaranteed No.	1984-85 Guaranteed $ Mil.
BY REGION								
#1 South	—	$ —	—	$ —	—	$ —	1	$ 0.1
#2 South Cent.	—	—	—	—	—	—	—	—
#3 North Cent.	—	—	1	0.1	—	—	1	0.1
#4 North East	—	—	—	—	—	—	1	0.3
#5 North West	—	—	—	—	—	—	3	0.3
#6 Peace River	1	10.0	2	33.0	1	18.5	—	—
	1	$10.0	3	$33.1	1	$18.5	6	$ 0.8
BY TYPE OF BUSINESS								
Alfalfa Processing	—	$ —	—	$ —	—	$ —	2	$ 0.2
Feed Mill	—	—	1	0.1	—	—	—	—
Meat Proc.	—	—	—	—	—	—	1	0.3
Rapeseed Crush	1	10.0	2	33.0	1	18.5	—	—
Vet. Clinic	—	—	—	—	—	—	2	0.2
Other	—	—	—	—	—	—	1	0.1
	1	$10.0	3	$33.1	1	$18.5	6	$ 0.8

ALBERTA REGIONAL MAP AND REGIONAL/DISTRICT OFFICES

■ Regional Office
○ District Office
☆ Head Office

HEAD OFFICE
Alberta Agricultural Development Corporation
4910 - 52 Street
CAMROSE, Alberta
T4V 2V4

Telephone
Area 403 679 1311

REGIONAL/DISTRICT OFFICES

South Region

REGIONAL OFFICE	Agriculture Centre LETHBRIDGE, Alberta T1J 4C7	381-5102
DISTRICT OFFICES		
BROOKS	Room 109 Provincial Building BROOKS, Alberta T0J 0J0	362-5551
CARDSTON	Provincial Building Main Street CARDSTON, Alberta T0K 0K0	653-3130
CLARESHOLM	Provincial Building CLARESHOLM, Alberta T0L 0T0	625-3301
MEDICINE HAT	Room 104 Provincial Building 770 - 6th Street SW MEDICINE HAT, Alberta T1A 4J6	529-3616
TABER	Administration Building TABER, Alberta T0K 2G0	223-9614
VULCAN	County Building 102 Centre Street VULCAN, Alberta T0L 2B0	485-2236

South Central Region

REGIONAL OFFICE	Agriculture Regional Centre AIRDRIE, Alberta T0M 0B0	948-5101
DISTRICT OFFICES		
CALGARY	M.D. of Rocky View Building 911 - 32 Avenue N.E. CALGARY, Alberta T2E 6X6	297-6281
DRUMHELLER	Provincial Building 201 Centre Street DRUMHELLER, Alberta T0J 0Y0	823-5740
HANNA	New Provincial Building 402 Centre Street HANNA, Alberta T0J 1P0	854-5500
OLDS	New Provincial Building OLDS, Alberta T0M 1P0	556-4220
THREE HILLS	P.O. Box 790 THREE HILLS, Alberta T0M 2A0	443-5503

REGIONAL/DISTRICT OFFICES

North Central Region

REGIONAL OFFICE	3rd Floor Provincial Building 4920 - 51 Street RED DEER, Alberta T4N 6K8	340-5326
DISTRICT OFFICES		
CAMROSE	District Extension Office 4909C - 48 Street CAMROSE, Alberta T4V 1L7	679-1229
LACOMBE	Agriculture Building Bag Service 47 LACOMBE, Alberta T0C 1S0	782-3301
RED DEER	Main Floor Provincial Building 4920 - 51 Street RED DEER, Alberta T4N 6K8	340-5364
STETTLER	Provincial Building 4809 - 48 Street STETTLER, Alberta T0C 2L0	742-7500
WETASKIWIN	Provincial Building 5201 - 50 Avenue WETASKIWIN, Alberta T9A 0S7	352-1243

North East Region

REGIONAL OFFICE	Provincial Building 4701 - 52 Street VERMILION, Alberta T0B 4M0	853-8109
DISTRICT OFFICES		
BONNYVILLE	Provincial Building BONNYVILLE, Alberta T0A 0L0	826-3388
SMOKY LAKE	Provincial Building SMOKY LAKE, Alberta T0A 3C0	656-3613
ST. PAUL	Provincial Building ST. PAUL, Alberta T0A 3A0	645-6301
TWO HILLS	Provincial Building TWO HILLS, Alberta T0B 4K0	657-3311
VEGREVILLE	Professional Building 4809 - 50 Street VEGREVILLE, Alberta T0B 4L0	632-5400
VERMILION	Provincial Building 4701 - 52 Street VERMILION, Alberta T0B 4M0	853-8101
WAINWRIGHT	Provincial Building WAINWRIGHT, Alberta T0B 4P0	842-6126

North West Region

REGIONAL OFFICE	Provincial Building BARRHEAD, Alberta T0G 0E0	674-8258
DISTRICT OFFICES		
ATHABASCA	Room 203 Provincial Building ATHABASCA, Alberta T0G 0B0	675-2252
BARRHEAD	Provincial Building BARRHEAD, Alberta T0G 0E0	674-8213
EDMONTON	2nd Floor Chemical Storage Building 6903 - 116 Street EDMONTON, Alberta T6H 4P2	427-2450
EVANSBURG	Provincial Building EVANSBURG, Alberta T0E 0T0	727-3673
WESTLOCK	Provincial Building 10003 - 100 Street WESTLOCK, Alberta T0G 2L0	349-4465

Peace River Region

REGIONAL OFFICE	Provincial Building FAIRVIEW, Alberta T0H 1L0	835-4975
DISTRICT OFFICES		
FAIRVIEW	Provincial Building FAIRVIEW, Alberta T0H 1L0	835-4975
GRANDE PRAIRIE	Provincial Building Room 3101 10320 - 99 Street GRANDE PRAIRIE, Alberta T8V 6J4	538-5280
PEACE RIVER	Provincial Building Bag 900, Box 19 PEACE RIVER, Alberta T0H 2X0	624-6170
FALHER	M.D. Building Main Street FALHER, Alberta T0H 1M0	837-2211
SPIRIT RIVER	Provincial Building SPIRIT RIVER, Alberta T0H 3G0	864-3597
FORT VERMILION	District Extension Office Box 40 FT. VERMILION, Alberta T0H 1N0	927-3712

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

Alberta Agricultural Development Corporation

AUDITOR'S REPORT

To the Board of Directors of the
Alberta Agricultural Development Corporation

I have examined the balance sheet of the Alberta Agricultural Development Corporation as at March 31, 1986 and the statements of revenue, expense and deficit, and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Donald D. Salmon

C. A.
Auditor General

Edmonton, Alberta
June 26, 1986

BALANCE SHEET

as at March 31, 1986
(thousands of dollars)

	1986	1985
Assets		
Cash	**$ 42,109**	$ 21,515
Accounts receivable	**112**	77
Guarantee implementations receivable (Note 4)	**1,774**	1,470
Loans and accrued interest receivable (Note 5)	**950,256**	957,585
Property held for sale	**15,640**	6,601
Other (Note 6)	**721**	516
Fixed assets (Note 7)	**1,205**	610
Trust (Note 8)	**15**	35
	$1,011,832	$ 988,409
Liabilities and Deficit		
Liabilities		
Accounts payable, Province of Alberta	**$ 24,840**	$ 38,071
Accounts payable, other	**653**	717
Guarantees payable	**405**	777
Allowance for losses on loan guarantees (Note 9)	**2,700**	997
Accrued incentives payable	**20,169**	19,705
Debentures payable (Note 11)	**1,041,240**	954,520
	1,090,007	1,014,787
Deficit	**(78,190)**	(26,413)
Trust (Note 8)	**15**	35
	$1,011,832	$ 988,409

The accompanying notes are part of these financial statements.

STATEMENT OF REVENUE, EXPENSE AND DEFICIT

for the year ended March 31, 1986
(thousands of dollars)

	1986	1985
Revenue:		
Interest	**$ 113,395**	$ 105,085
Administrative fees	**41**	33
Miscellaneous	**2**	67
	113,438	105,185
Expense:		
Interest on debentures	**132,056**	123,587
Operating, Schedule 1	**8,706**	7,398
Farm loan incentives, Schedule 2	**40,494**	38,090
Provision for doubtful accounts and for losses on realization of assets (Note 9)	**85,642**	42,875
	266,898	211,950
Operating loss	**153,460**	106,765
Contribution by the Province of Alberta (Note 3)	**101,683**	80,747
Net loss for the year	**51,777**	26,018
Deficit at beginning of year	**26,413**	395
Deficit at end of year	**$ 78,190**	$ 26,413

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended March 31, 1986
(thousands of dollars)

	1986	1985
Funds were provided from:		
Net loss for the year	**$ (51,777)**	$ (26,018)
Provision for doubtful accounts and for losses on realization of assets	**85,642**	42,875
Depreciation	**105**	85
Funds from operations	**33,970**	16,942
Proceeds on disposition of fixed assets	**19**	8
Proceeds from issue of debentures	**109,000**	127,000
Repayments of loans receivable	**11,711**	14,448
Increase in accounts payable, Province of Alberta	**—**	4,651
Increase in accrued incentives payable	**464**	3,597
Recoveries of guarantee implementations receivable	**1,986**	559
Decrease in accounts receivable	**—**	122
Decrease in other assets	**—**	39
Recoveries of trust assets	**17**	7
	157,167	167,373
Funds were applied to:		
Disbursements of loans	**95,160**	133,335
Repayments of debentures	**22,280**	19,480
Decrease in guarantees payable	**372**	18,715
Implementation of guarantees	**4,490**	3,179
Decrease in accounts payable, other	**64**	539
Fixed asset purchases	**719**	178
Decrease in accounts payable, Province of Alberta	**13,231**	—
Increase in other assets	**205**	—
Increase in accounts receivable	**35**	—
Repayment of trust asset recoveries	**17**	7
	136,573	175,433
Increase (decrease) in cash	**$ 20,594**	$ (8,060)

March 31, 1986

Note 1 Authority

The Alberta Agricultural Development Corporation operates under the authority of the Agricultural Development Act, Chapter A-7, Revised Statutes of Alberta 1980.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) **Fixed assets and depreciation**

Fixed assets having a cost in excess of $500 are capitalized and shown in the balance sheet. Depreciation is recorded on a straight line basis over the following estimated useful lives of the assets:

Electronic data processing systems	5 years
Office equipment	10 years

Depreciation is not recorded for electronic data processing systems under development.

(b) **Property held for sale**

Property held for sale is recorded at estimated net realizable value.

Note 3 Financial Structure

The Corporation's operations are funded through the sale of debentures to the Alberta Heritage Savings Trust Fund and a contribution from the General Revenue Fund of the Province of Alberta.

Office accommodation and field support staff are provided at no charge by the Province and accordingly are not reflected in these financial statements.

Note 4 Guarantee Implementations Receivable

Loan guarantee payments made to financial institutions for uncollectable loans made by them under the Corporation's guarantee are generally of a demand nature.

	1986	1985
	(thousands of dollars)	
Guarantee implementations receivable	$ 8,689	$ 8,845
Plus: Accrued interest	1,907	1,601
	10,596	10,446
Less: Allowance for doubtful accounts (Note 9)	8,822	8,976
	$ 1,774	$ 1,470

Note 5 Loans and Accrued Interest Receivable

Loans are secured by agreements for sale and mortgages and are repayable in instalments due as follows, assuming that options to renew will be exercised when applicable:

	1986	1985
	(thousands of dollars)	
Arrears of principal and interest	$ 68,157	$ 33,722
Prepaid	(5,587)	(4,795)
Principal due in		
1 year	27,753	22,091
2 years	20,506	19,526
3 years	22,088	21,100
4 years	24,019	22,536
5 years	26,155	24,362
6 - 10 years	161,447	152,640
Over 10 years	667,450	666,725
	1,011,988	957,907
Plus: Accrued interest	53,807	52,275
	1,065,795	1,010,182
Less: Allowance for doubtful accounts (Note 9)	115,539	52,597
	$ 950,256	$ 957,585

Note 6 Other Assets

	1986	1985
	(thousands of dollars)	
Unlisted preferred shares acquired as a result of security action	$ 500	$
Less: Allowance for losses on realization (Note 9)	250	
	250	
Investment in Lambco (Note 10)	471	516
	$ 721	$ 516

Note 7 Fixed Assets

Fixed assets are comprised of the following:

	Cost	Accumulated Depreciation	Net Book Value 1986	Net Book Value 1985
		(thousands of dollars)		
Office equipment	$ 214	$100	$ 114	$106
Electronic data processing systems	562	205	357	409
Electronic data processing systems under development	734		734	195
	$1,510	$305	$1,205	$710

Note 8 Trust Assets and Liabilities

The balances shown reflect outstanding loans less an estimated uncollectable amount of $86,000 (1985 $270,000). The Corporation has been taking collection action on these loans on behalf of the Province of Alberta.

Note 9 Allowance for Doubtful Accounts and for Losses on Realization of Assets

	Loans	Guarantee Implementations	Property for Sale	Other Assets	Loan Guarantees	Total
			(thousands of dollars)			
Allowance at beginning of year	$ 52,597	$8,976	$8,555	$ —	$ 997	$ 71,125
Less Amounts written off	3,770	1,765	3,472	—	—	9,007
	48,827	7,211	5,083	—	997	62,118
Increase in allowance	66,712	1,611	15,366	250	1,703	85,642
Allowance at end of year	$115,539	$8,822	$20,449	$250	$2,700	$147,760

Note 10 Investment in Lambco

Pursuant to an agreement between Lamb Processors Co-op Ltd., the Province of Alberta and the Corporation, the Corporation acquired the net assets and business of the Co-op. The Corporation has since provided operating advances to Lambco in accordance with the agreement. The agreement provides that the Province reimburse the Corporation for Lambco operating losses before depreciation expense and also for capital expenditures of Lambco to the extent that capital expenditures exceed any operating profit before depreciation expense for the year. As at March 31, 1986 the Corporation's investment in Lambco was $470,583 (1985 $515,884). Operating revenue and expenses of Lambco are not consolidated in the financial statements of the Corporation.

The agreement further provides that the Province will indemnify the Corporation for any losses which might be incurred on disposal of Lambco. Any disposal proceeds in excess of the Corporation's investment in Lambco will be payable to the Province.

Note 11 Debentures Payable

Debentures payable to the Province of Alberta are as follows:

Series	Year of Maturity	Weighted Average Interest Rate	March 31 Principal Outstanding 1986	1985
			(thousands of dollars)	
A	2004	9.94%	**$ 135,060**	$ 139,860
B	2004 - 2005	13.01	**34,800**	36,000
C	2005	11.22	**72,000**	73,600
D	2006	14.42	**136,600**	139,600
E	2006 - 2007	16.96	**185,360**	189,360
F	2007 - 2009	13.02	**261,600**	267,100
G	2009 - 2010	13.46	**106,820**	109,000
H	2010 - 2011	10.52	**109,000**	—
			$1,041,240	$954,520

The interest rates on debentures are fixed for five year periods and repayments are by annual instalments of the principal sum over the life of the debentures.

Principal repayments due in each of the next five years are as follows:

Year ended March 31, 1987	$25,960,000
1988	28,080,000
1989	29,960,000
1990	32,890,000
1991	34,600,000

Note 12 Contingent Liabilities and Commitments

The Corporation has the following contingent liabilities and commitments at March 31:

	1986	1985
	(thousands of dollars)	
Loan guarantees	**$ 72,202**	$ 69,650
Letter of credit	**5,924**	5,907
Total contingent liabilities	**$ 78,126**	$ 75,557
Estimated farm loan incentives over the next five years	**$ 34,524**	$108,750
Approved, undisbursed loans	**20,262**	30,046
Total commitments	**$ 54,786**	$138,796

The Province indemnifies the Corporation for any losses which might be incurred on loan guarantees.

Effective April 1, 1986, the Corporation's preferred interest rate was reduced from 12% to 9% and the Corporation's Beginning Farmer incentive rate was reduced from 6% to 3%. Accordingly, the estimated farm loan incentives have been reflected at the reduced rate at March 31, 1986.

Note 13 Comparative Figures

The 1985 figures have been reclassified where necessary to conform to 1986 presentation.

Note 14 Approval of Financial Statements

These financial statements were approved by management.

SCHEDULE OF OPERATING EXPENSE

Schedule 1
for the year ended March 31, 1986
(thousands of dollars)

	1986	1985
Salaries and wages	$ 5,994	$ 5,012
Employee benefits	747	578
Travel	498	541
Data processing	213	226
Directors' fees	206	228
Counsellor fees	189	31
Equipment rental and repair	173	133
Telecommunications	116	142
Depreciation	105	85
Professional fees	98	31
Stationery and office supplies	92	104
Legal	62	51
Printing and binding	58	51
Equipment purchases	45	66
Postage, freight and express	44	45
Meetings and conferences	34	37
Advertising	22	27
Microfilming	10	10
	$ 8,706	$ 7,398

Schedule 2

for the year ended March 31, 1986
(thousands of dollars)

	1986	1985
Beginning farmer program	$ 38,027	$ 37,113
Extended incentive program	1,447	18
Range and soil improvement program	594	429
Vegetable storage program	191	129
Native range incentive program	127	157
Sheep incentive program	59	65
Dairy development incentive program	33	134
Farm booster program	11	32
Grants to estates of deceased borrowers	5	13
	$ 40,494	$ 38,090

BOARD OF DIRECTORS

Chairman and Chief Executive Officer

J. Harold Hanna — Camrose

Directors

Gilbert Balderston — Sexsmith
Claude Bishop — Medicine Hat
Jacques Dargis — St. Vincent
Gerald Gunby — Debolt
Brian Heidecker — Coronation
Paul Madge — Milk River
Gloria Paquette — Pickardville
Gerald Parlby — Sherwood Park
John Richter — Beiseker

Corporate Officers and Senior Staff

(Camrose Head Office except where otherwise noted)

Chairman and Chief Executive Officer	J. Harold Hanna
General Counsel	Crawford Ferguson
Corporate Secretary	Douglas H. Murray
General Manager	Douglas J. Porter
Executive Director, Lending	Robert Thompson
Manager, Agribusiness Lending	Peter McNeil
Manager, Farm Lending	Brian J. Quinn
Manager, Loan Administration	John Bohach
Manager, Field Services	Randy Niven
Regional Managers:	
Lethbridge	Gordon Bruins
Airdrie	Peter Nielsen
Red Deer	Ken Friesen
Vermilion	Peter Ignatiuk
Barrhead	Lyle Roberts
Fairview	Frank Blush
Executive Director, Administration	E. George Suarez
Manager, Financial Services	David J. Schurman
Manager, Human Resources	Sylvia Moysa
Property Manager	Paul D. Stanley
Managing Solicitor	Nestor Nychka

Alberta

AGRICULTURAL DEVELOPMENT CORPORATION